

FORT MADISON COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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Fort Madison Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2005 election)		
Dan Davis	President	2005
Judy Gerdes	Vice President	2005
Duane Sherwood	Board Member	2007
Greg Wheeler	Board Member	2007
Denise Gray	Board Member	2006
Steve Martin	Board Member	2006
Peggy Booten	Board Member	2006
Board of Education		
(After September 2005 election)		
Dan Davis	President	2008
Judy Gerdes	Vice President	2008
Duane Sherwood	Board Member	2007
Greg Wheeler	Board Member	2007
Denise Gray	Board Member	2006
Steve Martin	Board Member (Resigned)	2006
Donald Ward	Board Member (Appointed)	2006
Peggy Booten	Board Member	2006
School Officials		
Dr. Kenneth Marang	Superintendent	2006
Craig Cornick	Director of Student Services	2006
Sandra K. Elmore	District Secretary/Treasurer and Business Manager	2006
Gruhn Law Firm	Attorney	2006

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(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Fort Madison Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fort Madison Community School District, Fort Madison, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Fort Madison Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2006 on our consideration of Fort Madison Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Fort Madison Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

November 2, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fort Madison Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- The District's total combined net assets were \$16,515,458 as of June 30, 2006 compared to \$16,273,454 as of June 30, 2005, an increase of 1.5%.
- General Fund revenues increased from \$17,792,501 in fiscal 2005 to \$18,108,126 in fiscal 2006, while General Fund expenditures increased from \$18,829,720 in fiscal 2005 to \$19,121,363 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$3,140,505 in fiscal 2005 to \$2,127,268 in fiscal 2006.
- The increase in General Fund expenditures was due primarily to an increase in the expenditures in the support services function.
- The September 2005 Certified Enrollment count resulted in an increase of 12.7 students, representing an increase of less than 1% compared to the prior year.
- The District ended the year with no long term debt outstanding except for early retirement and compensated absences.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Fort Madison Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Fort Madison Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Fort Madison Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Fort Madison Community School District Annual Financial Report

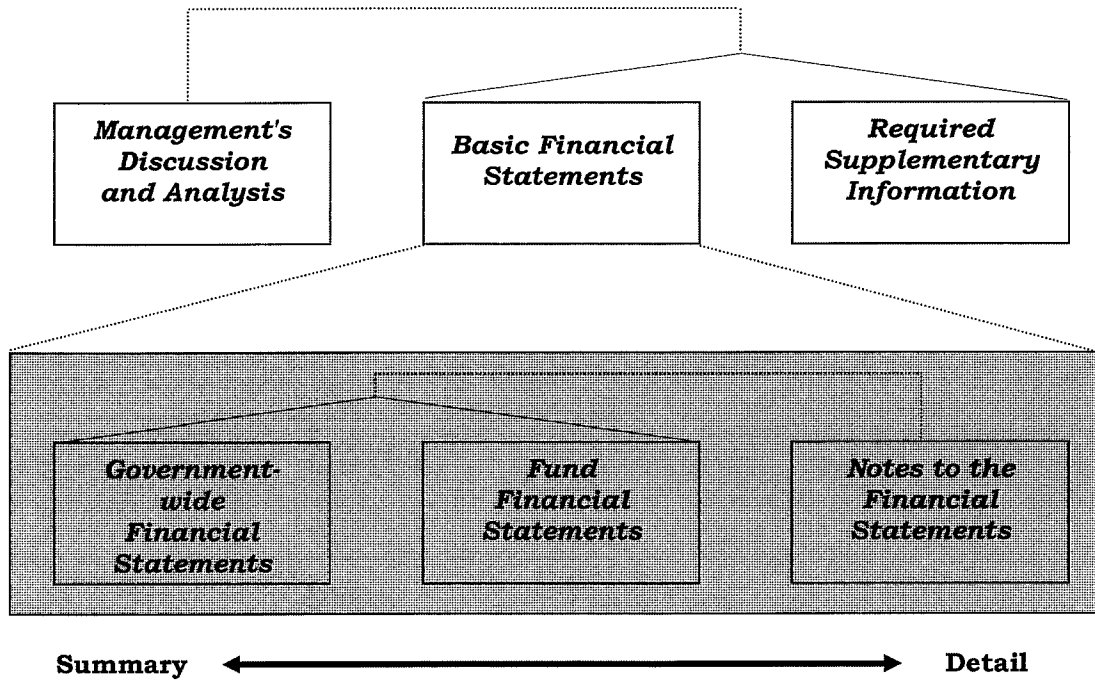


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 16,214,545	14,987,942	374,148	391,736	16,588,693	15,379,678	7.9%
Capital assets	9,270,440	9,392,950	59,048	34,979	9,329,488	9,427,929	-1.0%
Total assets	25,484,985	24,380,892	433,196	426,715	25,918,181	24,807,607	4.5%
Long-term obligations	486,413	307,020	0	0	486,413	307,020	58.4%
Other liabilities	8,852,858	8,178,432	63,452	48,701	8,916,310	8,227,133	8.4%
Total liabilities	9,339,271	8,485,452	63,452	48,701	9,402,723	8,534,153	10.2%
Net assets:							
Invested in capital assets, net of related debt	9,270,440	9,392,950	59,048	34,979	9,329,488	9,427,929	-1.0%
Restricted	5,049,045	3,557,831	0	0	5,049,045	3,557,831	41.9%
Unrestricted	1,826,229	2,944,659	310,696	343,035	2,136,925	3,287,694	-35.0%
Total net assets	\$ 16,145,714	15,895,440	369,744	378,014	16,515,458	16,273,454	1.5%

The District's combined net assets increased by 1.5%, or \$242,004, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$1,491,214, or 41.9% over the prior year. The increase was primarily a result of the increase in the Capital Projects Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$1,150,769, or 35%. This decrease in unrestricted net assets was a result of the District increased expenditures in the General Fund.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 671,355	849,055	363,159	392,043	1,034,514	1,241,098	-16.65%
Operating grants and contributions and restricted interest	2,703,511	2,742,100	485,674	422,936	3,189,185	3,165,036	0.76%
Capital grants and contributions and restricted interest	89,404	1,500,000	0	0	89,404	1,500,000	-94.04%
General revenues:							
Local tax	5,814,423	5,690,241	0	0	5,814,423	5,690,241	2.18%
Local option sales and service tax	1,466,898	1,499,940	0	0	1,466,898	1,499,940	-2.20%
Unrestricted state grants	9,740,997	9,409,787	0	0	9,740,997	9,409,787	3.52%
Other	326,911	115,999	12,720	6,985	339,631	122,984	176.16%
Total revenues	20,813,499	21,807,122	861,553	821,964	21,675,052	22,629,086	-4.22%
Program expenses:							
Governmental activities:							
Instructional	13,967,287	14,181,052	0	0	13,967,287	14,181,052	-1.51%
Support services	5,379,502	4,444,693	0	0	5,379,502	4,444,693	21.03%
Non-instructional programs	0	0	869,823	758,272	869,823	758,272	14.71%
Other expenses	1,216,436	1,217,393	0	0	1,216,436	1,217,393	-0.08%
Total expenses	20,563,225	19,843,138	869,823	758,272	21,433,048	20,601,410	4.04%
Changes in net assets	250,274	1,963,984	(8,270)	63,692	242,004	2,027,676	-88.06%
Beginning net assets	15,895,440	13,931,456	378,014	314,322	16,273,454	14,245,778	14.23%
Ending net assets	\$ 16,145,714	15,895,440	369,744	378,014	16,515,458	16,273,454	1.49%

In fiscal 2006, property tax and unrestricted state grants account for 74.7% of the revenue from governmental activities while charges for services and operating grants and contributions account for 98.5% of the revenue from business type activities.

The District's total revenues were approximately \$21.7 million of which \$20.8 million was for governmental activities and \$.9 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 4.22% in revenues and a 4.04% increase in expenses. The increase in expenses was related to the increase in support services and non-instructional costs during the year.

Governmental Activities

Revenues for governmental activities were \$20,813,499 and expenses were \$20,563,225.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 13,967,287	11,484,664
Support services	5,379,502	5,242,386
Other expenses	1,216,436	371,905
Totals	<u>\$ 20,563,225</u>	<u>17,098,955</u>

- The cost financed by users of the District's programs was \$671,355.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,792,915.
- The net cost of governmental activities was financed with \$5,814,423 in property tax, \$1,466,898 in local option sales and service tax, \$9,740,997 in unrestricted state grants and \$296,024 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$861,553 and expenses were \$869,823. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Fort Madison Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$7,361,687, above last year's ending fund balances of \$6,809,510. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to the increase in the Capital Projects fund balance.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. An increase during the year in tax and state grants resulted in an increase in revenues. The increase in revenues was offset by the District's increase in General Fund expenditures reducing the District's fund balance.
- The General Fund balance decreased from \$3,140,505 to \$2,127,268, due in part to increased expenditures during the year.
- The Capital Projects fund balance increased from \$3,370,956 to \$4,882,361, due in part to the decrease in expenditures during the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$378,014 at June 30, 2005 to \$369,744 at June 30, 2006, representing a decrease of 2.2%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$1,112,877 more than budgeted revenues, a variance of 5.4%. The most significant variance resulted from the District receiving more in local and federal sources than originally anticipated.

The District manages or controls General Fund spending through its line-item budget. The certified budget exceeded in the support services and non-instructional functions due to the timing of expenditures paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$9.3 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$598,400.

The original cost of the District's capital assets was \$16,431,090. Governmental funds account for \$16,285,821 with the remainder of \$145,269 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$170,020 at June 30, 2006. This was the result of new construction projects at the end the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 173,854	173,854	0	0	173,854	173,854	0.0%
Construction in progress	170,020	0	0	0	170,020	0	100.0%
Buildings	8,056,919	8,313,017	0	0	8,056,919	8,313,017	-3.1%
Improvements other than buildings	190,092	177,634	0	0	190,092	177,634	7.0%
Machinery and equipment	679,555	728,445	59,048	34,979	738,603	763,424	-3.3%
Total	\$ 9,270,440	9,392,950	59,048	34,979	9,329,488	9,427,929	-1.0%

Long-Term Debt

At June 30, 2006, the District had \$486,413 in other long-term debt outstanding. This represents an increase of 58.4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
Early retirement	\$ 425,685	253,475	67.9%
Compensated absences	60,728	53,545	13.4%
Totals	<u>\$ 486,413</u>	<u>307,020</u>	<u>58.4%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The state's economy is showing limited signs of economic recovery. The weak economy has adversely impacted the State of Iowa's budget and has translated into reduced levels of state aid funding for education.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The October 2006 certified enrollment resulted in a decrease of 52.4 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandra K. Elmore, District Secretary/Treasurer, Fort Madison Community School District, P.O. Box 1423, Fort Madison, Iowa, 52627.

BASIC FINANCIAL STATEMENTS

FORT MADISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 8,900,871	314,296	9,215,167
Receivables:			
Property tax:			
Delinquent	110,202	0	110,202
Succeeding year	6,389,124	0	6,389,124
Accounts	19,094	40,451	59,545
Due from other governments	795,254	0	795,254
Inventories	0	19,401	19,401
Capital assets, net of accumulated depreciation(Note 3)	9,270,440	59,048	9,329,488
Total Assets	25,484,985	433,196	25,918,181
Liabilities			
Accounts payable	606,995	19,304	626,299
Salaries and benefits payable	1,749,776	44,148	1,793,924
Deferred revenue:			
Succeeding year property tax	6,389,124	0	6,389,124
Other	106,963	0	106,963
Long-term liabilities(Note 4):			
Portion due within one year:			
Early retirement payable	259,493	0	259,493
Compensated absences payable	60,728	0	60,728
Portion due after one year:			
Early retirement payable	166,192	0	166,192
Total Liabilities	9,339,271	63,452	9,402,723
Net Assets			
Investment in capital assets, net of related debt	9,270,440	59,048	9,329,488
Restricted for:			
Talented and gifted	53,313	0	53,313
Salary improvement program	30,531	0	30,531
Capital projects	4,882,361	0	4,882,361
Other special revenue purposes	82,840	0	82,840
Unrestricted	1,826,229	310,696	2,136,925
Total Net Assets	\$ 16,145,714	369,744	16,515,458

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 8,491,713	66,374	1,660,317	0	(6,765,022)	0
Special instruction	3,164,041	94,789	150,951	0	(2,918,301)	0
Other instruction	2,311,533	510,192	0	0	(1,801,341)	0
	<u>13,967,287</u>	<u>671,355</u>	<u>1,811,268</u>	<u>0</u>	<u>(11,484,664)</u>	<u>0</u>
Support services:						
Student services	428,847	0	0	0	(428,847)	0
Instructional staff services	926,685	0	0	0	(926,685)	0
Administration services	1,550,461	0	0	0	(1,550,461)	0
Operation and maintenance of plant services	1,701,041	0	0	0	(1,701,041)	0
Transportation services	772,468	0	137,116	0	(635,352)	0
	<u>5,379,502</u>	<u>0</u>	<u>137,116</u>	<u>0</u>	<u>(5,242,386)</u>	<u>0</u>
Other expenditures:						
Facilities acquisitions	51,130	0	0	89,404	38,274	0
AEA flowthrough	755,127	0	755,127	0	0	0
Depreciation(unallocated)*	410,179	0	0	0	(410,179)	0
	<u>1,216,436</u>	<u>0</u>	<u>755,127</u>	<u>89,404</u>	<u>(371,905)</u>	<u>0</u>
Total governmental activities	20,563,225	671,355	2,703,511	89,404	(17,098,955)	0
Business-Type activities:						
Non-instructional programs:						
Nutrition services	869,823	363,159	485,674	0	0	(20,990)
Total business-type activities	<u>869,823</u>	<u>363,159</u>	<u>485,674</u>	<u>0</u>	<u>0</u>	<u>(20,990)</u>
Total	<u>\$ 21,433,048</u>	<u>1,034,514</u>	<u>3,189,185</u>	<u>89,404</u>	<u>(17,098,955)</u>	<u>(20,990)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 5,670,424	0	5,670,424
Capital outlay				143,999	0	143,999
Local option sales and services tax				1,466,898	0	1,466,898
Unrestricted state grants				9,740,997	0	9,740,997
Unrestricted investment earnings				296,024	12,720	308,744
Other				30,887	0	30,887
Total general revenues				<u>17,349,229</u>	<u>12,720</u>	<u>17,361,949</u>
Changes in net assets				250,274	(8,270)	242,004
Net assets beginning of year				15,895,440	378,014	16,273,454
Net assets end of year				<u>\$ 16,145,714</u>	<u>369,744</u>	<u>16,515,458</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Nonmajor Special Revenue Funds	Total
Assets				
Cash and pooled investments	\$ 3,719,285	4,797,382	384,204	8,900,871
Receivables:				
Property tax:				
Delinquent	98,600	0	11,602	110,202
Succeeding year	5,631,509	0	757,615	6,389,124
Accounts	19,094	0	0	19,094
Due from other governments	584,280	121,570	89,404	795,254
Total Assets	\$ 10,052,768	4,918,952	1,242,825	16,214,545
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 437,252	36,591	133,152	606,995
Salaries and benefits payable	1,749,776	0	0	1,749,776
Deferred revenue:				
Succeeding year property tax	5,631,509	0	757,615	6,389,124
Other	106,963	0	0	106,963
Total liabilities	7,925,500	36,591	890,767	8,852,858
Fund balances:				
Reserved for:				
Talented and gifted	53,313	0	0	53,313
Salary improvement program	30,531	0	0	30,531
Unreserved	2,043,424	4,882,361	352,058	7,277,843
Total fund balances	2,127,268	4,882,361	352,058	7,361,687
Total Liabilities and Fund Balances	\$ 10,052,768	4,918,952	1,242,825	16,214,545

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 7,361,687
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	9,270,440
Long-term liabilities, including compensated absences and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(486,413)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 16,145,714</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 5,201,047	1,466,898	613,376	7,281,321
Tuition	161,163	0	0	161,163
Other	388,783	159,387	375,549	923,719
State sources	11,357,910	0	759	11,358,669
Federal sources	999,223	0	89,404	1,088,627
Total revenues	18,108,126	1,626,285	1,079,088	20,813,499
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	8,124,119	0	240,692	8,364,811
Special instruction	3,161,927	0	0	3,161,927
Other instruction	1,928,903	0	382,872	2,311,775
	13,214,949	0	623,564	13,838,513
Support services:				
Student services	429,221	0	0	429,221
Instructional staff services	925,657	0	0	925,657
Administration services	1,534,528	0	13,656	1,548,184
Operation and maintenance of plant services	1,588,813	0	77,813	1,666,626
Transportation services	673,068	0	52,424	725,492
	5,151,287	0	143,893	5,295,180
Other expenditures:				
Facilities acquisitions	0	114,880	257,622	372,502
AEA flowthrough	755,127	0	0	755,127
	755,127	114,880	257,622	1,127,629
Total expenditures	19,121,363	114,880	1,025,079	20,261,322
Net change in fund balances	(1,013,237)	1,511,405	54,009	552,177
Fund balance beginning of year	3,140,505	3,370,956	298,049	6,809,510
Fund balance end of year	\$ 2,127,268	4,882,361	352,058	7,361,687

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 552,177

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 467,600	
Depreciation expense	<u>(590,110)</u>	(122,510)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ (172,210)	
Compensated Absences	<u>(7,183)</u>	<u>(179,393)</u>

Changes in net assets of governmental activities (page 14) \$ 250,274

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School Nutrition</u>
Assets	
Cash and pooled investments	\$ 314,296
Accounts receivable	40,451
Inventories	19,401
Capital assets, net of accumulated depreciation (Note 3)	<u>59,048</u>
Total Assets	<u>433,196</u>
Liabilities	
Accounts payable	19,304
Salaries and benefits payable	<u>44,148</u>
Total Liabilities	<u>63,452</u>
Net Assets	
Investment in capital assets	59,048
Unrestricted	<u>310,696</u>
Total Net Assets	<u>\$ 369,744</u>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 363,159
TOTAL OPERATING REVENUES	<u>363,159</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	296,776
Benefits	36,576
Services	15,200
Supplies	510,765
Depreciation	2,216
Other	8,290
TOTAL OPERATING EXPENSES	<u>869,823</u>
OPERATING LOSS	<u>(506,664)</u>
NON-OPERATING REVENUES:	
State sources	11,266
Federal sources	474,408
Interest income	12,720
TOTAL NON-OPERATING REVENUES	<u>498,394</u>
Change in net assets	(8,270)
Net assets beginning of year	<u>378,014</u>
Net assets end of year	<u>\$ 369,744</u>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 317,711
Cash received from miscellaneous operating activities	1,780
Cash payments to employees for services	(331,555)
Cash payments to suppliers for goods or services	(470,503)
Net cash used in operating activities	<u>(482,567)</u>
Cash flows from non-capital financing activities:	
State grants received	11,266
Federal grants received	435,300
Net cash provided by non-capital financing activities	<u>446,566</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(32,359)
Net cash used in capital and related financing activities	<u>(32,359)</u>
Cash flows from investing activities:	
Interest income	12,720
Net cash provided by investing activities	<u>12,720</u>
Net decrease in cash and cash equivalents	(55,640)
Cash and cash equivalents at beginning of year	<u>369,936</u>
Cash and cash equivalents at end of year	<u>\$ 314,296</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (506,664)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	39,108
Depreciation	8,290
Decrease in inventories	2,399
Increase in accounts receivable	(40,451)
Increase in accounts payable	16,171
Increase in salaries and benefits payable	1,797
Decrease in unearned revenue	(3,217)
Net cash used in operating activities	<u>\$ (482,567)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 314,296</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$39,108.

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Fort Madison Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Fort Madison, Iowa, and the predominate agricultural territory in Lee, Des Moines and Henry Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Fort Madison Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Fort Madison Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lee, Des Moines and Henry Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services and non-instructional functions exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified portfolio	<u>\$ 8,197,982</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Services.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 173,854	0	0	173,854
Construction in progress	0	170,020	0	170,020
Total capital assets not being depreciated	173,854	170,020	0	343,874
Capital assets being depreciated:				
Buildings	12,892,308	141,689	0	13,033,997
Improvements other than buildings	382,452	24,850	0	407,302
Machinery and equipment	2,497,938	146,228	143,518	2,500,648
Total capital assets being depreciated	15,772,698	312,767	143,518	15,941,947
Less accumulated depreciation for:				
Buildings	4,579,291	397,787	0	4,977,078
Improvements other than buildings	204,818	12,392	0	217,210
Machinery and equipment	1,769,493	179,931	128,331	1,821,093
Total accumulated depreciation	6,553,602	590,110	128,331	7,015,381
Total capital assets being depreciated, net	9,219,096	(277,343)	15,187	8,926,566
Governmental activities capital assets, net	\$ 9,392,950	(107,323)	15,187	9,270,440
Business-type activities:				
Machinery and equipment	\$ 112,910	32,359	0	145,269
Less accumulated depreciation	77,931	8,290	0	86,221
Business-type activities capital assets, net	\$ 34,979	24,069	0	59,048

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 40,667
Special	1,089
Other	3,753
Support services:	
Student	2,100
Administration	11,867
Operation and maintenance of plant	8,473
Transportation	111,982
	<u>179,931</u>
Unallocated depreciation	<u>410,179</u>
Total governmental activities depreciation expense	<u>\$ 590,110</u>
Business-type activities:	
Food services	\$ 8,290
Total business-type activities depreciation expense	<u>\$ 8,290</u>

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Early Retirement	\$ 253,475	334,875	162,665	425,685	259,493
Compensated Absences	53,545	60,728	53,545	60,728	60,728
Total	<u>\$ 307,020</u>	<u>395,603</u>	<u>216,210</u>	<u>486,413</u>	<u>320,221</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees, classified employees and administrative staff. Eligible employees must have completed ten years of continuous service to the District in order to qualify for supplemental benefits. Employees desiring to elect early retirement under this program must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is based on their current employment classification. The supplemental benefit for administrators will be \$25,000 and licensed employees will be \$20,000. The supplemental benefit for classified employees will be 50% of the current contract at the time of retirement. Early retirement benefits paid during the year ended June 30, 2006, totaled \$162,665. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS

provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$682,479, \$667,590 and \$629,817 respectively, equal to the required contributions for each year.

(6) Risk Management

Fort Madison Community School District is a member in the Southeast Iowa School Employees Benefits Health Plan, and Iowa Code Chapter 28E organization. The Southeast Iowa School Employees Benefits Health Plan (SEISHP) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. SEISHP was for the purpose of managing and funding employee benefits. SEISHP provides coverage and protection in the following categories: medical and dental.

Each member's contributions to SEISHP funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, SEISHP's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to SEISHP for the year ended June 30, 2006 were \$1,673,845.

Payments from participating members are used to buy health insurance from Wellmark and paying dental and vision claims. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

Most members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. SEISHP will pay claims incurred before the termination date.

Fort Madison Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The

District's actual amount for this purpose totaled \$755,127 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the support services and non-instructional functions exceeded the amounts budgeted.

(9) Construction Commitment

The District has entered into various contracts for construction projects. As of June 30, 2006, costs of \$170,020 have been incurred against these contracts. The balance remaining at June 30, 2006 will be paid as work on the projects progresses.

(10) Deficit Net Assets

The Special Revenue, Physical Plant and Equipment Levy Fund had a deficit unreserved fund balance of \$567 at June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

FORT MADISON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 8,366,203	375,879	8,742,082	8,211,443	8,211,443	530,639
State sources	11,358,669	11,266	11,369,935	11,291,732	11,291,732	78,203
Federal sources	1,088,627	474,408	1,563,035	1,059,000	1,059,000	504,035
Total revenues	20,813,499	861,553	21,675,052	20,562,175	20,562,175	1,112,877
Expenditures:						
Instruction	13,838,513	0	13,838,513	13,869,832	13,869,832	31,319
Support services	5,295,180	0	5,295,180	4,782,303	4,782,303	(512,877)
Non-instructional programs	0	869,823	869,823	845,000	845,000	(24,823)
Other expenditures	1,127,629	0	1,127,629	1,964,288	1,964,288	836,659
Total expenditures	20,261,322	869,823	21,131,145	21,461,423	21,461,423	330,278
Excess(deficiency) of revenues over(under) expenditures	552,177	(8,270)	543,907	(899,248)	(899,248)	1,443,155
Balance beginning of year	6,809,510	378,014	7,187,524	5,829,209	5,829,209	1,358,315
Balance end of year	\$ 7,361,687	369,744	7,731,431	4,929,961	4,929,961	2,801,470

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the support services and non-instructional functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

FORT MADISON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 264,521	96,736	22,947	384,204
Receivables:				
Property tax:				
Current year delinquent	8,898	0	2,704	11,602
Succeeding year	610,358	0	147,257	757,615
Due from other governments	0	0	89,404	89,404
Total Assets	\$ 883,777	96,736	262,312	1,242,825
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 3,634	13,896	115,622	133,152
Deferred revenue:				
Succeeding year property tax	610,358	0	147,257	757,615
Total liabilities	613,992	13,896	262,879	890,767
Fund balances:				
Unreserved	269,785	82,840	(567)	352,058
Total fund balances	269,785	82,840	(567)	352,058
Total Liabilities and Fund Balances	\$ 883,777	96,736	262,312	1,242,825

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 469,377	0	143,999	613,376
Other	17,750	357,488	311	375,549
State sources	582	0	177	759
Federal sources	0	0	89,404	89,404
TOTAL REVENUES	487,709	357,488	233,891	1,079,088
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	240,692	0	0	240,692
Other instruction	0	382,872	0	382,872
Support services:				
Administration services	13,656	0	0	13,656
Operation and maintenance of plant services	77,813	0	0	77,813
Student transportation	52,424	0	0	52,424
Other expenditures:				
Facilities acquisitions	0	0	257,622	257,622
TOTAL EXPENDITURES	384,585	382,872	257,622	1,025,079
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	103,124	(25,384)	(23,731)	54,009
FUND BALANCE BEGINNING OF YEAR	166,661	108,224	23,164	298,049
FUND BALANCE END OF YEAR	\$ 269,785	82,840	(567)	352,058

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Special Education Club	\$ 104	417	417	104
Child Health Fund	11,240	2,079	1,027	12,292
Activity Account	567	705	179	1,093
Undistributed Funds	3,832	5,161	3,521	5,472
Vocal Music	5,513	9,289	7,837	6,965
Instrumental Music	804	20,947	21,532	219
DMS Club	(98)	56	389	(431)
History Day Fund	431	0	48	383
Mixed 7th & 8 Grade Team	701	2,197	3,111	(213)
6th Grade Team	76	0	24	52
7th Grade Team	5	0	0	5
8th Grade Team	304	587	1,099	(208)
Industrial Tech	2,915	501	151	3,265
Family and Consumer	424	522	311	635
Co-curricular	(1,463)	0	(1,463)	0
Student Activity	7,264	19,526	19,160	7,630
Employee Activity Account	199	991	697	493
Student Council	1,155	779	1,547	387
Cheerleaders	277	0	277	0
Library Club	1,647	1,414	1,235	1,826
Terrier Pride	10	0	0	10
Block Beautification Project	(47)	0	(47)	0
Prarie fire	50	1,829	1,879	0
Speech - Small Group	(845)	0	(845)	0
Speech - Large Group	(748)	252	(496)	0
Vocal Music	1,139	0	(2,871)	4,010
Instrumental Music	3,195	385	2,687	893
Co-Curricular Act - H.S.	(3,333)	17,013	21,432	(7,752)
Gate Receipts	9,459	76,865	86,681	(357)
Soccer Coed	0	915	915	0
Soccer - Fund Raiser	1,776	25	661	1,140
Cross Country	9	814	823	0
Boys Basketball-Fund Raiser	(316)	2,057	1,218	523
Football	0	1,580	1,580	0
Football - Fund Raiser	2,672	2,403	6,066	(991)
Baseball	(34)	0	(34)	0
Baseball - Fund Raiser	162	4,701	5,460	(597)
Boys Track	0	460	460	0
Boys golf	0	282	282	0
Wrestling	74	1,515	1,589	0
Wrestling - Fund Raiser	4,074	6,543	7,799	2,818
Girls Basketball	0	1,120	1,120	0
Girls Basketball-Fund Raiser	1,073	1,035	1,280	828

FORT MADISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Volleyball	0	87	87	0
Volleyball - Fund Raiser	2,470	2,886	2,122	3,234
Softball	(464)	0	(464)	0
Softball - Fund Raiser	1,341	5,242	2,684	3,899
Girls Track	0	810	810	0
GTR/BTR/CC Fund Raiser	948	12,618	13,566	0
Girls Tennis	58	45	103	0
Crimson & Black	452	1,451	746	1,157
Art Club	2,861	3,804	5,582	1,083
Student Activity Account	3,643	3,539	3,758	3,424
Foreign Language Club	1,594	167	766	995
FFA	8	0	0	8
Employee Activity Account	1,092	1,053	516	1,629
FCCLA	4,240	1,269	1,983	3,526
Business Pros of America	625	725	1,638	(288)
HS Student Government	1,146	0	1,024	122
Bus. Pros of Am. Jr Class	(849)	2,131	1,562	(280)
Key Club	5,314	2,433	1,520	6,227
Madisonian	2,435	23,322	24,411	1,346
Dist. Educ. Club	145	5,016	5,288	(127)
Machine Shop Vica	154	0	0	154
Auto Shop Vica	1,894	3,202	3,831	1,265
National Honor Society	120	807	81	846
Science Club	1,117	1,055	374	1,798
Varsity Club	10	0	10	0
Student Concessions	502	46,779	46,081	1,200
Dance & Drill Team	1,942	9,807	8,332	3,417
Library Club	955	533	181	1,307
Class of 2005	1,098	0	1,098	0
Class of 2006	798	1,410	2,208	0
Class of 2007	2,705	4,592	4,198	3,099
Class of 2008	84	2,229	195	2,118
Other unreserved class	0	556	670	(114)
Cheerleaders - Varsity	1,186	9,927	23,144	(12,031)
Student Equity Committee	287	0	0	287
MDT Fundraising	328	0	168	160
Student Activity Account	4,760	5,952	8,484	2,228
Student Council Account	615	0	0	615
Special Education Club	3,963	4,872	5,393	3,442
Student Activity Account	4,437	4,833	7,427	1,843
Richardson PTO	(3,266)	5,233	1,859	108
Student Activity Account	3,209	4,138	2,698	4,649
Total	\$ 108,224	357,488	382,872	82,840

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	7,281,321	7,190,181	7,232,611	7,123,944
Tuition		161,163	174,045	105,802	185,204
Other		923,719	791,009	714,690	648,273
State sources		11,358,669	10,962,706	10,699,317	10,853,131
Federal sources		1,088,627	2,689,181	991,438	849,622
Total	\$	20,813,499	21,807,122	19,743,858	19,660,174
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	8,364,811	8,448,219	7,486,971	7,293,921
Special instruction		3,161,927	3,278,363	4,088,149	3,764,288
Other instruction		2,311,775	2,557,970	1,358,302	1,292,622
Support services:					
Student services		429,221	305,392	756,033	568,909
Instructional staff services		925,657	627,902	256,149	230,300
Administration services		1,548,184	1,322,744	1,196,868	1,148,429
Operation and maintenance of plant services		1,666,626	1,460,757	1,577,535	1,351,407
Transportation services		725,492	919,733	627,260	668,093
Non-instructional programs		0	0	5,578	21,874
Other expenditures:					
Facilities acquisitions		372,502	1,502,725	2,847,114	343,139
Long-term debt:					
Principal		0	0	20,000	20,000
Interest		0	0	5,205	4,471
AEA flow-through		755,127	744,835	757,872	808,963
Total	\$	20,261,322	21,168,640	20,983,036	17,516,416

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	84.287	FY 06	\$ 285,776
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 06	39,108
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	86,299
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	336,501
SUMMER FOOD SERVICE PROGRAM	10.559	FY 06	12,500
			435,300
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	2322-G	288,764
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	2322-GC	58,317
			347,081
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 06	427
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 06	2,962
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332	FY 06	7,185
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 06	89,404
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 06	138,424
ENHANCING EDUCATION THROUGH TECHNOLOGY (E2T2)	84.318	FY 05	1,875

FORT MADISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED) :			
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC			
GRANTS TO STATES	84.048	FY 06	<u>41,972</u>
SPECIAL EDUCATION - GRANTS TO			
STATES (PART B)	84.027	FY 06	<u>150,951</u>
SPECIAL EDUCATION - GRANTS TO			
STATES (SUCCESS 4)	84.027	FY 04	<u>4,569</u>
TOTAL			<u>\$ 1,545,034</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Fort Madison Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Fort Madison Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fort Madison Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 2, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fort Madison Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fort Madison Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

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Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Fort Madison Community School District and other parties to Fort Madison Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Fort Madison Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

November 2, 2006

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3060
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Fort Madison Community School District

Compliance

We have audited the compliance of Fort Madison Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Fort Madison Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Fort Madison Community School District's management. Our responsibility is to express an opinion on Fort Madison Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fort Madison Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Fort Madison Community School District's compliance with those requirements.

In our opinion, Fort Madison Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Fort Madison Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Fort Madison Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with

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applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Fort Madison Community School District and other parties to whom Fort Madison Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

November 2, 2006

FORT MADISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Individual Program:
 - CFDA Number 84.287 - Twenty-first Century Community Learning Centers
 - CFDA Number 84.010 - Title I Grants to Local Education Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Fort Madison Community School District qualified as a low-risk auditee.

FORT MADISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-06 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be re-issued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - The District does periodically try to contact the recipients of outstanding checks to determine the status of these checks. We do void and re-issue checks when the recipient verifies that the check is lost and needs to be replaced.

Conclusion - Response accepted.

- II-B-06 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In compliance with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches, and determine that the wage paid is in compliance with minimum wage requirements as well as any overtime issues.

Response - The District will put into place a time recording process for non-certified coaches to meet the record keeping requirements.

Conclusion - Response accepted.

- II-C-06 Supporting Documentation- It was noted during the audit, an instance of a meal and room service charge billed to a hotel invoice. A detailed receipt wasn't provided as support documentation for this charge.

Recommendation - The District has a policy in place for credit card usage, which states that the users need to provide detailed receipts for purchases made. The District should review procedures in place with personnel to ensure the proper detailed documentation will be available for support for paid invoices.

Response - The District will review procedures and ensure the proper detailed documentation will be available for support of paid invoices.

Conclusion - Response accepted.

- II-D-06 Student Activity Fund - During our audit concerns arose about the propriety of certain receipts, expenditures and accounts within the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student

activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8).

More specific findings are as follows:

- There were Target and Box Top for Education donations into the Student Activity Fund.
- We noted that there was an interest account.
- Textbooks were purchased from the Student Council and instructional supplies were purchased from the Library Club.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. The interest earned each year should be allocated out at on an annual basis to the individual activity accounts.

Response - The District acknowledges that some funds are deposited into the Student Activity accounts due to the ease these accounts provide for accurate tracking and reporting purposes. The amount of funds in these accounts is well monitored and kept to a minimum. Most of these funds are expended in the same year as they are received and are providing opportunities for students to participate in extra curricular activities that could be provided out of the general fund if it had been recorded in that fund.

Conclusion - Response accepted.

II-E-06 Nutrition Procedures - We noted during the audit the following within the School Nutrition Fund:

- The commodity food listing was not priced out correctly at the end of the year.
- The family meal account balances were not reconciled to the unearned revenue account on the balance sheet at the end of the year.
- Registration collections weren't transferred at year-end.

Recommendation - The District should review their procedures to ensure that the commodity food is priced out correctly, the unearned revenues are correctly stated on the balance sheet and all registration collections are transferred before year-end.

Response - The commodity inventory will be corrected with the next year's costing. There is no impact to the overall financial condition of this fund. The overall balance sheet was correctly stated and reflected accurately the financial position of the Nutrition Fund.

Conclusion - Response accepted.

FORT MADISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

FORT MADISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 exceeded the amount budgeted in the support services and non-instructional functions.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - The District will review expenses and amend the budget as necessary in accordance with Chapter 24.9 of the Code of Iowa.

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Bob Norton, Teacher Owner of Electronic Services	Supplies	\$127

In accordance with an Attorney General's opinion dated July 2, 1990, the above transaction with the teacher does not appear to represent a conflict of interest.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-J-06 Financial Condition - We noted during our audit that there were negative individual account balances within the Student Activity Fund. We also noted that the Special

Revenue, Physical Plant and Equipment Levy had a deficit unreserved fund balance of \$567 at June 30, 2006.

Recommendation - The District should monitor these deficit accounts and ensure that purchases are not made without the sufficient funds to pay for them.

Response - The District does monitor deficit accounts and allows for purchases if they are pre-planned as a fundraising project. The deficits are accounted for with the expectation that they be made whole and thus not written off.

Conclusion - Response accepted.